



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
CARTER COUNTY CLERK**

Calendar Year 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CARTER COUNTY CLERK

Calendar Year 2001

The Auditor of Public Accounts has completed the Carter County Clerk's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$16,817 from the prior calendar year, resulting in excess fees of \$79,819 as of December 31, 2001. Revenues increased by \$230,016 from the prior year and disbursements increased by \$213,199.

Report Comments:

- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Alice Joy Binion, Carter County Judge/Executive

Honorable Hugh R. McDavid, Carter County Clerk

Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Carter County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Alice Joy Binion, Carter County Judge/Executive
Honorable Hugh R. McDavid, Carter County Clerk
Members of the Carter County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 19, 2002

CARTER COUNTY
HUGH R. MCDAVID, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Fees For Services	\$	10,551
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Fiscal Court		6,497
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	652,162
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Usage Tax		2,783,549
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Tangible Personal Property Tax		1,351,826
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Licenses-

Marriage		10,247
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Deed Transfer Tax		24,769
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Delinquent Tax	196,012	5,018,565
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	13,404
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Real Estate Mortgages		11,304
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Chattel Mortgages and Financing Statements		111,000
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Powers of Attorney		960
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All Other Recordings		36,563
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Charges for Other Services-

Candidate Filing Fees		1,250
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Copywork		5,956
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Miscellaneous Charges	18,762	199,199
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Other:

Refunds	\$	18,136
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Vehicle Inspections	3,560	21,696
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Interest Earned		4,847
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Gross Receipts	\$	5,261,355
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CARTER COUNTY
HUGH R. MCDAVID, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 477,030
Usage Tax	2,695,366
Tangible Personal Property Tax	558,578

Licenses, Taxes, and Fees-

Fish and Game	2,997
Delinquent Tax	28,749
Legal Process Tax	23,744
Candidate Filing Fees	690
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	\$ 3,787,154

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 85,191	
Delinquent Tax	17,599	
Deed Transfer Tax	24,191	126,981
	<hr/>	

Payments to Other Districts:

Tangible Personal Property Tax	\$ 654,028	
Delinquent Tax	100,214	754,242
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Payments to Sheriff 3,805

Payments to County Attorney 28,799

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 202,534
Part-Time Salaries	21,690
Election Commissioners	1,850

Employee Benefits-

Employer's Share Social Security	21,800
Employer's Share Retirement	18,773
Employer's Paid Health Insurance	34,210

CARTER COUNTY
HUGH R. MCDAVID, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:
(Continued)

Contracted Services-			
Printing and Binding	\$	3,702	
Materials and Supplies-			
Equipment Repairs		1,176	
Office Expense		18,981	
Office Supplies		25,548	
Other Charges-			
Conventions and Travel		5,426	
Dues		1,000	
Postage		5,000	
Refunds		23,616	
Vehicle Inspections		3,560	
Miscellaneous		788	
Capital Outlay-			
Office Equipment		19,427	\$ 409,081
Total Disbursements			\$ 5,110,062
Net Receipts			\$ 151,293
Less: Statutory Maximum			65,685
Excess Fees			\$ 85,608
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		2,189	5,789
Excess Fees Due County for Calendar Year 2000			\$ 79,819
Payments to County Treasurer- March 12, 2002	\$	79,066	
April 19, 2002		753	79,819
Balance Due at Completion of Audit			\$ 0

The accompanying notes are an integral part of the financial statement.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Lease

The office of the County Clerk is committed to a lease agreement with Toshiba American Information for a copier. The agreement requires a monthly payment of \$337 for 36 months to be completed on December 18, 2004. The total balance of the agreement is \$10,781 as of December 31, 2001.

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COMMENT AND RECOMMENDATION

CARTER COUNTY
HUGH R. MCDAVID, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 2001

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

We noted the lack of an adequate segregation of duties for the internal control structure and its operation. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. To offset this lack of segregation of duties, the County Clerk could implement compensating controls and procedures. The compensating controls would include the County Clerk recounting cash and making daily deposits, agreeing daily AVIS totals to the receipts ledger, and preparing bank reconciliations.

County Clerk's Response:

No Response.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Members of the Carter County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Carter County Clerk for the year ended December 31, 2001, and have issued our report thereon dated April 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Carter County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carter County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 19, 2002

